

SETTLEMENT AGREEMENT

This Settlement Agreement is made and entered into as of April 22, 2002 (the "Effective Date") by and among the Governor of the State of California, acting on behalf of the agencies, departments, and commissions of the executive branch of the State of California; the California Electricity Oversight Board; the California Public Utilities Commission; the People of the State of California, by and through the Attorney General; Calpine Corporation; and Calpine Energy Services, L.P.

1 Definitions.

The following terms have the following meanings:

1.1. "AG" means the People of the State of California, by and through the Attorney General Bill Lockyer.

2 "CAISO" means the California Independent System Operator Corporation

1.3. "California Executive" means the Governor of the State of California, acting on behalf of the agencies, departments, and commissions of the executive branch of the State of California, including, without limitation, CDWR. California Executive shall not include the CPUC or any other body created by the California Constitution.

1.4. "California State Releasing Parties" means the California Executive, the CPUC, the CEOB, and the AG.

5 "Calpine" means Calpine Corporation, a Delaware Corporation.

1.6. "Calpine Contract Entities" means Calpine, CES and any other wholly-owned subsidiaries of Calpine which own, lease or provide operation and maintenance services to any of the plants listed on Exhibit A, which provided or provide Electric Power pursuant to the Original Contracts or the Renegotiated Contracts, or any successor thereto, and the present and former officers, directors, employees, agents and legal representatives of any of the above entities.

1.7. "Calpine California Entities" means Calpine, CES, and any other wholly-owned subsidiaries of Calpine, which own, lease or provide operation and maintenance services to any of the plants listed on Exhibit A, which were or are involved in the generation, sale and purchase of Electric Power in California from or after March 31, 1998 through the Effective Date, or any successor thereto, and the present and former officers, directors, employees, agents and legal representatives of any of the above entities. Calpine California Entities includes the Calpine Contract Entities.

1.8. "Cal PX" means the California Power Exchange.

1.9. "CDWR" means the State of California Department of Water Resources, including without limitation, the California Energy Resources Scheduling Division.

"CEOB" means the California Electricity Oversight Board.

1.11. "CES" means Calpine Energy Services, L.P., a Delaware limited partnership wholly-owned by Calpine.

1.12. "CPUC" means the California Public Utilities Commission.

1.13. "Effective Date" has the meaning set forth in the first paragraph of this Settlement Agreement.

1.14. "Electric Power" means electric energy and related products, including capacity and ancillary services such as regulation, spinning reserve, non-spinning reserve and replacement reserve.

1.15. "FERC" means the Federal Energy Regulatory Commission.

1.16. "Original Contracts" means that certain Amended and Restated Master Power Purchase and Sale Agreement dated as of February 26, 2001 between CES and the CDWR and each of the Confirmation Letters entered into by such parties pursuant thereto on February 6, February 26, February 27, and June 11, 2001.

1.17. "Paragraph" means a numbered paragraph of this Settlement Agreement, unless otherwise noted, and all references to a paragraph shall include all subparts or subparagraphs of that paragraph.

1.18. "Parties" means the persons and entities listed in the first paragraph of this Settlement Agreement, collectively, and, their respective successors and assigns. Each of the Parties may be individually referred to herein as a "Party."

1.19. "Released Claims" means any and all of the claims set forth and described in Paragraphs 4.1, 4.2, 4.3, and 4.4.

1.20. "Renegotiated Contracts" means that certain Second Amended and Restated Master Power Purchase and Sale Agreement dated as of April ~~2~~¹, 2002 between CES and the CDWR and each of the Amended and Restated Confirmation Letters entered into by such parties pursuant thereto, copies of which are attached hereto as Exhibits B through F.

"Settlement Agreement" means this document.

2. Recitals.

2.1. In January and February of 2001, the CAISO declared thirty-two straight days of Stage 3 emergencies, and there were several days of rolling blackouts. Average daily prices in the spot energy markets exceeded \$450 per megawatt hour in January 2001, ten to fifteen times the price of energy in the spot market the year before.

2.2. On January 17, 2001, Governor Gray Davis proclaimed a state of emergency in California due to "unanticipated and dramatic increases in the price of electricity" which

"threatened the solvency of California's major public utilities, preventing them from continuing to acquire and provide electricity sufficient to meet California's energy needs." In his emergency proclamation, the Governor ordered the CDWR to enter into necessary contracts and arrangements with public and private entities for the purchase and sale of electric power. Pursuant to this emergency proclamation, the CDWR began purchasing electricity to accommodate the unmet demand for power of the approximately 10 million retail end-use customers in California served by the three investor-owned utilities and to assure reliability of the transmission system. The Calpine California Entities have sold electric energy and energy-related products to CDWR since it commenced purchasing electricity and energy-related products pursuant to such proclamation.

2.3. In connection with the Governor's plan to manage the energy crisis, the California State Legislature authorized the CDWR to, among other things, enter into contracts with energy suppliers, pursuant to ABIX.

2.4. In compliance with the Governor's directive and pursuant to its authority under ABIX, and to help further the objective of assuring a reliable supply of electricity for California's retail end-use consumers, the CDWR and CES entered into the Original Contracts.

2.5. On August 2, 2000, San Diego Gas & Electric Company, the CAISO and the Cal PX filed a Section 206 Complaint (Docket No. EL00-95-000, et al.) at the FERC alleging, among other things, that the energy markets in California operated by the Cal PX and CAISO resulted in prices paid for Electric Power that were not just and reasonable (the "Refund Proceeding"), which complaint was consolidated with complaints filed by other persons or entities, including the CEOB (Docket No. EL00-104-000).

2.6. On February 25, 2002, and on February 26, 2002, the CPUC and the CEOB, respectively, filed separate complaints in Docket Nos. EL02-60-000 and EL02-62-000 under Section 206 of the Federal Power Act at the FERC alleging, among other things, that the terms and the rates under the Original Contracts are not just and reasonable or consistent with the public interest (the "CPUC Complaint" and the "CEOB Complaint," respectively).

2.7. On March 20, 2002, the People of the State of California by and through Attorney General Bill Lockyer filed a complaint at FERC in Docket No. EL02-71-000 under Sections 205 and 206 of the Federal Power Act alleging, among other things, that public utility sellers which had made sales to CDWR, Cal PX, and the CAISO were in violation of certain reporting and filing requirements (the "AG 206 Complaint"). On or about March 8, 2002, the People of the State of California by and through Attorney General Bill Lockyer served a subpoena (the "AG Subpoena") on Calpine pursuant to its investigation *In the Matter of the Investigation of Possible Unlawful, Unfair or Anti-Competitive Behavior Affecting Electricity Prices in California* ("the AG Investigation").

2.8. Representatives of the Calpine California Entities, the CPUC, and the California Executive have had numerous discussions regarding renegotiation of the Original Contracts. On April 27, 2002, the CDWR and CES executed the Renegotiated Contracts, which represent amended and restated versions of the Original Contracts and which will supersede them in their entirety.

2.9. Pursuant to AB1X, the CDWR and the CPUC have executed the duly authorized Rate Agreement (the "Rate Agreement") providing for the recovery by CDWR of its revenue requirements. The CPUC issued D. 02-02-051 on February 21, 2002, finding the Rate Agreement to be in the public interest and adopting it.

2.10. The Parties desire to resolve certain matters and to avoid any future claims relating to them, including issues relating to the effectiveness, validity or justness and reasonableness of the Renegotiated Contracts, by way of compromise rather than by litigation. The Parties have agreed to resolve such matters and to ensure the ongoing effectiveness and validity of the Renegotiated Contracts on the terms and conditions set forth in this Settlement Agreement.

NOW THEREFORE, in consideration of the foregoing, the mutual covenants contained herein, and the execution of the Renegotiated Contracts, it is hereby agreed between and among the Parties as follows:

3 Closing.

3.1. Each Party shall execute six (6) copies of the Settlement Agreement. By 5:00 p.m. Pacific time on the Effective Date, each Party shall deliver to each other Party, at a mutually agreed place, one executed original of this Settlement Agreement.

3.2. CDWR and CES shall execute four (4) copies of the Renegotiated Contracts. By 5:00 p.m. Pacific Time on the Effective Date, CDWR and CES shall deliver executed copies of the Renegotiated Contracts to each of the California State Releasing Parties at a mutually agreed place.

3.3. This Settlement Agreement, including the releases and other actions provided for herein, and the Renegotiated Contracts shall not become effective until and unless the CPUC has voted to adopt the Settlement Agreement. By 5:00 p.m. Pacific time on the Effective Date, the CPUC shall have considered and voted on approving the execution of this Settlement Agreement by the CPUC and communicated the outcome of the vote to CES.

3.4. By 5:00 p.m. Pacific time on the Effective Date, the California State Releasing Parties and CES shall have taken all actions necessary to authorize the execution and delivery of this Settlement Agreement and the Renegotiated Contracts.

3.5. This Settlement Agreement, including the releases and other actions provided for herein, and the Renegotiated Contracts shall become effective when the requirements of Paragraphs 3.1 through 3.4 have been satisfied.

4. Mutual Release and Waiver.

4.1. The Original Contracts and the Renegotiated Contracts

Each of the California State Releasing Parties for itself hereby releases, acquits and forever discharges any and all claims of any nature whatsoever that it ever had, now has, or

hereafter can, shall, or may have against the Calpine Contract Entities based on, or arising out of, in whole or in part, (1) any of the Original Contracts, or (2) the ineffectiveness, lack of due authorization, invalidity or the unjustness and unreasonableness of any of the obligations of any of the California State Releasing Parties under the Renegotiated Contracts. This release does not constitute a waiver by the California State Releasing Parties of the right to pursue remedies under the Renegotiated Contracts from and after the Effective Date as provided therein, including but not limited to (1) claims of breach of an obligation created by the Renegotiated Contracts, (2) claims of failure to perform under the Renegotiated Contracts, and (3) disputes over the obligations created by, or the meaning of any terms used in, any of the Renegotiated Contracts. This release in this section 4.1 applies only to matters which are directed at the operation or management of generation facilities, or the generation, purchase, sale, or transmission of Electric Power and/or other utility or energy goods and services, pursuant to the Original Contracts and Renegotiated Contracts, and does not include matters of general applicability including, without limitation, environmental, permitting, health, safety and taxation.

The California State Releasing Parties waive all rights to challenge the validity or the justness and reasonableness of the Renegotiated Contracts for and with respect to the entire term thereof, including any rights under Sections 205 and 206 of the Federal Power Act to request the FERC to revise the terms and conditions and the rates or services specified in the Renegotiated Contracts, and hereby agree to make no filings at the FERC or with any other state or federal agency, board, court or tribunal challenging the rates, terms and conditions of the Renegotiated Contracts as to their justness and reasonableness.

The California State Releasing Parties and the Calpine California Entities acknowledge and agree that the Renegotiated Contracts, together with any assignments or novations in connection with financing as contemplated in Schedule 1 "Consent and Agreement" of the Renegotiated Contracts (but not any novation by means of a Replacement Agreement as defined in the Renegotiated Contracts), are "Priority Long Term Power Contracts" under the Rate Agreement.

4.2. Original Contracts, Renegotiated Contracts and FERC

The CEOB and CPUC hereby agree to withdraw with prejudice, by means of filing a Notice of Partial Withdrawal, pursuant to 18 C.F.R. § 385.216(a), as to the Calpine Contract Entities only, all actions or complaints set forth in the CPUC Complaint and the CEOB Complaint pertaining to the Calpine Contract Entities within ten business days from the Effective Date. In filing to withdraw the CPUC Complaint and the CEOB Complaint as to the Calpine Contract Entities, the CEOB and the CPUC shall advise the FERC that resolution has been reached between themselves and the Calpine Contract Entities concerning such actions and complaints. The contents of each such filing shall be consistent with the terms and conditions of this Settlement Agreement.

This paragraph 4.2 shall not restrict in any other way the ability of the CEOB or the CPUC to continue to participate in the CPUC Complaint or CEOB Complaint.

4.3. CEOB and CPUC - Refund Proceeding

The CEOB and CPUC hereby release, acquit and discharge the Calpine California Entities from any and all claims of any nature whatsoever that they have ever had, now have, or hereafter may have against the Calpine California Entities: (1) to receive refunds at the conclusion of the Refund Proceeding, and (2) for any remedy concerning the operation and management of any generation facilities or the purchase, sale, ownership, or transmission of Electric Power from or to the CAISO, Cal PX, and CDWR prior to the Effective Date except as provided below. The CEOB and CPUC may otherwise continue their participation in the Refund Proceeding to the ultimate conclusion of that proceeding, including any actions on appeal. The CEOB and the CPUC shall not bring or pursue any other action or claim against the Calpine California Entities arising from sales, acts or omissions prior to the Effective Date related to the operation and management of generation facilities, and the generation, purchase, sale, or transmission of Electric Power or the Refund Proceeding. This shall not restrict the ability of the CEOB or CPUC to continue to participate in any existing proceeding, or to bring or participate in any future proceeding that does not include specific claims against the Calpine California Entities but could indirectly affect the Calpine California Entities, such as but not limited to proceedings concerning market structure, scheduling rules, generally applicable market rules, and price mitigation.

In recognition of this settlement, the CEOB shall terminate any and all investigations as to the Calpine California Entities as they relate to the pursuit of claims released by the CEOB in this paragraph 4.3. The CPUC has no pending investigation into the Calpine California Entities and does not contemplate an investigation of them as it relates to the Released Claims. This does not limit the CEOB or the CPUC in collecting information or in investigating any matter not related to pursuit of the claims released by the CEOB or CPUC herein. This paragraph does not resolve, release or compromise any existing claim relating to the terms of Reliability Must Run Service, including without limitation, Geysers Power.

4.4. The AG 206 Complaint and the AG Subpoena and AG Investigation

The AG hereby releases, acquits and forever discharges any and all claims of any nature whatsoever that he ever had, now has, or hereafter can, shall, or may have against the Calpine California Entities based on or arising out of: (1) the AG 206 Complaint, (2) the AG Subpoena and AG Investigation, (3) the operation and management of any generation facilities or any sales or purchases of Electric Power made by the Calpine California Entities prior to the Effective Date pursuant to the market based rate authority granted by the FERC, and any claimed overcharges in connection therewith, (4) any violations or claimed violations of the Federal Power Act and/or any rules, regulations, tariffs or orders related to the Original Contracts which occurred prior to the Effective Date and (5) any other acts or omissions by or of the Calpine California Entities or any of them related to the operation and management of generation facilities or the generation, purchase, sale, or transmission of Electric Power prior to the Effective Date, including but not limited to (a) requests for refunds, for contract reformation, or for any other relief in any proceeding before the FERC, (b) claims under California Business & Professional Code § 17200, and (c) any federal or state antitrust claims; provided, however, this release applies only to matters related to the operation and management of generation facilities, and the generation, purchase, sale, or transmission of Electric Power and/or other utility or

energy goods and services and does not include matters of general applicability, including, without limitation, environmental, permitting, health, safety and taxation. This release does not constitute a waiver or release of any claims by the AG for any actions of or omissions by any of the Calpine California Entities both before or subsequent to the Effective Date which are: (a) willfully fraudulent; provided, however, that this release does extend to such claims (if any) that are based solely upon acts or omissions of any of the Calpine California Entities that (A) occurred prior to the Effective Date and (B) are currently known by the AG's office by virtue of the AG Investigation or otherwise; or (b) criminal. This paragraph shall not restrict the ability of the AG to continue to participate in any existing proceeding, or to bring or participate in any future proceeding that does not include specific claims against the Calpine California Entities but could indirectly affect the Calpine California Entities.

The AG shall terminate, rescind, and recall all outstanding investigations of (formal or informal), or actions against, the Calpine California Entities, and all subpoenas, data and document requests, and similar inquiries to the Calpine California Entities within the scope of the claims released in this paragraph, including the AG Subpoena.

The AG further agrees that he will not file any actions based on any legal theory, including without limitation Business and Professions Code §17200, against any of the Calpine California Entities with respect to violations or claimed violations of CAISO tariffs or other unlawful or allegedly unlawful conduct resulting from compliance by the Calpine California Entities, or any of them, with the terms and conditions of the Renegotiated Contracts.

4.5. The Calpine California Entities agree to make a payment of \$6 million, payable to the AG's office, as follows: (a) \$2 million within 30 days of the execution of this Settlement Agreement, (b) \$2 million between January 1, 2003 and January 31, 2003, and (c) \$2 million between January 1, 2004 and January 31, 2004. The AG will distribute and apply such amount as follows: (i) \$1.5 million shall be paid into an account (the "Alternative Energy Retrofit Account") to be created at the Power Authority or other appropriate entity for funding of solar or other alternative energy retrofits of schools, hospitals and public buildings in California, and (ii) \$4.5 million shall be used by the AG's office to reimburse the costs incurred by the AG's office to date in connection with its investigation of the California energy markets, the matters referred to in this Settlement Agreement and other costs associated with the AG's review and approval of the Renegotiated Contracts. The AG will in its sole discretion help create the Alternative Energy Retrofit Account and will distribute the above-referenced payments as soon as reasonably practicable following receipt of such payments.

4.6. The Calpine California Entities hereby release, acquit, and forever discharge the California State Releasing Parties from any and all claims of any nature whatsoever that any Calpine California Entities, whether directly, representatively, derivatively, or in any other capacity, ever had, now has, or hereafter can, shall, or may have against the California State Releasing Parties based on, arising out of, or relating in any way to, in whole or in part, (1) any of the Original Contracts, or (2) the ineffectiveness, lack of due authorization, invalidity or unjustness and unreasonableness of any of the obligations of any of the Calpine Contract Entities under the Renegotiated Contracts. This release does not constitute a waiver by the Calpine Contract Entities of the right to pursue remedies under the Renegotiated Contracts from and after

the Effective Date as provided therein, including but not limited to (1) claims of breach of an obligation created by either of the Renegotiated Contracts, (2) claims of failure to perform under either of the Renegotiated Contracts, and (3) disputes over the obligations created by, or the meaning of any terms used in, either of the Renegotiated Contracts. This release does not constitute a waiver of any claims by the Calpine Contract Entities that actions of the California State Releasing Parties subsequent to the Effective Date may constitute an "impairment of contract," as used in the California and United States Constitution, with respect to the Renegotiated Contracts.

The Calpine California Entities hereby release, acquit, and forever discharge the California State Releasing Parties from any and all claims arising on or before the Effective Date related to the claims described in Paragraphs 4.1, 4.2, 4.3 and 4.4.

4.7. Notwithstanding anything herein to the contrary, nothing in these Paragraphs 4.1, 4.2, 4.3, 4.4 or 4.6 shall constitute a limitation to, or waiver of, any right to enforce any obligation or pursue any remedy provided under this Settlement Agreement or the Renegotiated Contracts (including the enforcement of the releases provided hereunder).

4.8. The California State Releasing Parties represent and agree that they will not enter into any subsequent settlement agreement or similar agreement with other persons or entities who generated, sold or marketed power in California settling claims similar to or arising out of the same general facts and circumstances as the Released Claims directly or indirectly providing such other person or entity with third party beneficiary rights under or related to the matters covered by the Rate Agreement.

4.9. The California State Releasing Parties and the Calpine California Entities each expressly waives the benefits of any statutory provision or common law rule that provides, in sum or substance, that a release does not extend to claims which the party does not know or suspect to exist in its favor at the time of executing the release, which if known by it, would have materially affected its settlement with the other party. In particular, but without limitation, each of the California State Releasing Parties and the Calpine California Entities expressly waives the provisions of California Civil Code section 1542, which statute reads:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

Each of the California State Releasing Parties and the Calpine California Entities may hereafter discover facts other than or different from those that it knows or believes to be true with respect to the claims released pursuant to the provisions of this Settlement Agreement, but each of the California State Releasing Parties and the Calpine California Entities hereby expressly waives and fully, finally and forever settles and releases any known or unknown, suspected or unsuspected, asserted or unasserted, contingent or noncontingent claim with respect to the Released Claims except, with respect to the AG, criminal claims and claims of willful fraud as provided in Paragraph 4.4.

4.10. The California State Releasing Parties and the Calpine California Entities each expressly represents and warrants that it has not sold, assigned, transferred, or encumbered, or otherwise disposed of, in whole or in part, voluntarily or involuntarily, any claim released pursuant to this Settlement Agreement.

4.11. This Settlement Agreement may be pleaded as a full and complete defense to any claim that may be instituted, prosecuted or attempted in breach of this Settlement Agreement. The Parties further agree that their respective duties and obligations hereunder may be specifically enforced through an action seeking equitable relief or a petition for writ of mandamus by the Party or Parties for whose benefit such duty or obligation is to be performed, but no breach of any duty or obligation by any Party hereunder shall entitle any other Party to rescind or terminate this Settlement Agreement or the Renegotiated Contracts. In any such action, and in any action to enforce the provisions of the Settlement Agreement, the prevailing Party shall recover its reasonable attorneys' fees and costs.

4.12. CES and Calpine agree that the Calpine California Entities are subject to, and will comply in all material respects with, applicable rate filing requirements under the Federal Power Act and regulations thereunder, as those requirements may be interpreted, reviewed and revised by the FERC or a federal court from time to time. The AG will not file any actions based on any legal theory, including without limitation Business and Professions Code §17200, against any of the Calpine California Entities with respect to such filing requirements or any filings made, or any failure or omission to make filings, under the Federal Power Act so long as such parties comply with the requirements of this Paragraph 4.12.

4.13. Calpine and CES agree for themselves and the Calpine California Entities to continue to cooperate with the AG in his civil investigation of the electricity markets in California. It is anticipated that the AG may seek to interview certain employees of the Calpine and CES and request documentation on an informal basis relevant to that investigation. Both the Calpine California Entities and the AG agree to act in good faith, so that an undue burden is not placed on either party and the need for information from the Calpine California Entities is satisfied as soon as practical.

4.14. The California State Releasing Parties and the Calpine California Entities expressly understand that both direct and indirect breaches of the provisions of this Settlement Agreement are proscribed. Therefore, the California State Releasing Parties and the Calpine California Entities covenant that each will not institute or prosecute, against the other, any action or other proceeding based in whole or in part upon any claims released by this Settlement Agreement; provided, however, the Parties expressly acknowledge that the CPUC Complaint, CEOB Complaint, Refund Proceeding, AG 206 Complaint and the AG Investigation are continuing with respect to entities other than the Calpine California Entities, and this release is not intended to impair in any way the California State Releasing Parties' participation in those pending actions.

5. General Provisions.

5.1. In entering and making this Settlement Agreement, the Parties assume the risk of any mistake of fact or law. If the Parties, or any of them, should later discover that any fact they

relied upon in entering this Settlement Agreement is not true, or that their understanding of the facts or law was incorrect, the Parties shall not be entitled to seek rescission of this Settlement Agreement by reason thereof. This Settlement Agreement is intended to be final and binding upon the Parties regardless of any mistake of fact or law.

5.2. This Settlement Agreement shall be binding upon and for the benefit of any of the Parties, or their successors and assigns. Nothing in this Settlement Agreement shall be construed or interpreted to impart any rights or obligations to any third party (other than a permitted successor or assignee bound to this Settlement Agreement).

5.3. Neither the provision of consideration in the form of the mutual covenants contained herein, nor the performance of any such covenants contained herein, nor anything contained or incorporated herein shall be deemed, nor shall the negotiations, execution and performance of this Settlement Agreement constitute, any admission or concession of liability or wrongdoing on the part of any Party; or any other form of admission with respect to any matter, thing or dispute whatsoever. Any such liability or wrongdoing is expressly denied.

5.4. Each Party represents and warrants to the other Parties that: (1) it has the full power and authority to enter into this Settlement Agreement and to perform all transactions, duties and obligations herein set forth, (2) it has taken all necessary actions duly and validly to authorize the execution and delivery of this Settlement Agreement and the other documents and agreements provided for herein to be executed and delivered by such Party in accordance with applicable law, (3) it has duly and validly executed and delivered this Settlement Agreement and the other documents and agreements provided for herein to be executed and delivered by such Party, and (4) this Settlement Agreement and the other documents and agreements provided for herein to be executed and delivered by such Party constitute the legal, valid and binding obligations of such Party, enforceable against such Party in accordance with their respective terms.

5.5. Each Party warrants the following: (1) it is represented by competent counsel with respect to this Settlement Agreement and all matters covered by it; (2) it has been fully advised by said counsel with respect to its rights and obligations and with respect to the execution of this Settlement Agreement; and (3) it authorizes and directs its respective attorneys to have such papers executed and to take such other action as is necessary and appropriate to effectuate the terms of this Settlement Agreement.

5.6. Each Party warrants that no promise, inducement or agreement not expressed herein has been made in connection with this Settlement Agreement. To the extent that it was deemed necessary and desirable by a Party, each such Party warrants that it has received appropriate, adequate and competent technical and economic advice. Each Party warrants that it has not relied on any other Party for advice or guidance concerning the technical or economic implications or consequences of the Renegotiated Contracts or this Settlement Agreement. This Settlement Agreement constitutes the entire agreement between the Parties and supersedes and replaces all prior negotiations or proposed agreements, written or oral, with respect to the subject matter thereof.

5.7. This Settlement Agreement may not be altered, amended, modified or otherwise changed in any respect whatsoever except by a writing duly executed by an authorized representative of each of the Parties.

5.8. The language of this Settlement Agreement shall be construed as a whole, according to its fair meaning and intent, and not strictly for or against any Party, regardless of who drafted or was principally responsible for drafting the Settlement Agreement or any specific terms or conditions hereof. This Settlement Agreement shall be deemed to have been drafted by all Parties, and no Party shall urge otherwise.

5.9. The headings in this Settlement Agreement are for convenience only. They in no way limit, alter or affect the meaning of this Settlement Agreement.

5.10. This Settlement Agreement shall be construed and enforced pursuant to the laws of the State of California.

5.11. Should any provision of this Settlement Agreement be held illegal, such illegality shall not invalidate the whole of this Settlement Agreement; instead, the Parties shall use their best efforts to reform the Settlement Agreement in order to give effect to the original intention of the Parties in all material respects.

5.12. This Settlement Agreement may be executed in multiple original and/or facsimile counterparts, each of which is equally admissible in evidence and shall be deemed to be one and the same instrument. This Settlement Agreement shall not take effect until each Party has signed a counterpart.

5.13. Each signatory to this Settlement Agreement who signs on behalf of a Party represents and warrants that he or she has the authority to sign on behalf of that Party.

IN WITNESS WHEREOF, the Parties have executed this Settlement Agreement as of Effective Date.

The Governor of the State of California

By:  _____

Barry Goode, Secretary of Legal Affairs

Attorney for the Governor of the State of California

State of California Department of Water Resources

By: P. S. Garriss

Peter S. Garriss, Deputy Director

The California Electricity Oversight Board

By: _____

Name: _____

Title: _____

The California Public Utilities Commission

By: _____

Name _____

Title _____

Attorney General of the State of California

By: Ken Alex

Name: Ken Alex

Title: Supervising Deputy Attorney General

Calpine Corporation

By: E. James Macias

E. James Macias, Chief Operating Officer

Calpine Energy Services, L.P.

By: E. James Macias

E. James Macias, Executive Vice President

State of California Department of Water Resources

By: _____

Peter S. Garriss, Deputy Director

The California Electricity Oversight Board

By: Erik N. Saltmarsh

Erik N. Saltmarsh

Chief Counsel, Acting Director

The California Public Utilities Commission

By: _____

Name: _____

Title: _____

Attorney General of the State of California

By: _____

Name: _____

Title: _____

Calpine Corporation

By: _____

E. James Macias, Chief Operating Officer

Calpine Energy Services, L.P.

By: _____

E. James Macias, Executive Vice President

State of California Department of Water Resources

By: _____

Peter S. Garris, Deputy Director

The California Electricity Oversight Board

By: _____

Name: _____

Title: _____

The California Public Utilities Commission

By: Gary M. Cohen

Name: Gary M. Cohen

Title: General Counsel

Attorney General of the State of California

By: _____

Name: _____

Title: _____

Calpine Corporation

By: _____

E. James Macias, Chief Operating Officer

Calpine Energy Services, L.P.

By: _____

E. James Macias, Executive Vice President

SETTLEMENT AGREEMENT
EXHIBIT A

The Agnews Power Plant
The Aidlin 1 Power Plant
The Aidlin 2 Power Plant
The Bear Canyon 1 Power Plant
The Bear Canyon 2 Power Plant
The Big Geysers Power Plant
The Calistoga Power Plant
The Cobb Creek Power Plant
The Eagle Rock Power Plant
The Fumarole Power Plants
Gilroy Energy Center
The Gilroy Power Plant
The Grant Power Plant
The Greenleaf 1 Power Plant
The Greenleaf 2 Power Plant
King City Energy Center
The King City Power Plant
The Lakeview Power Plant
Los Medanos Energy Center
The McCabe Power Plants
The Pittsburg Power Plant
The Quicksilver Power Plant
The Ridge Line Power Plants
The Socrates Power Plant
The Sonoma Power Plant
South Point Energy Center
The Sulphur Springs Power Plant
Sutter Energy Center
The Watsonville Power Plant